

DG 03-190

**NEW HAMPSHIRE GAS CORPORATION**

**Winter 2003/2004 Winter Cost of Gas**

**Order Approving Cost of Gas Rates**

**O R D E R N O. 24,230**

**October 31, 2003**

**APPEARANCES:** Ransmeier & Spellman by Dom S. D'Ambruoso, Esq., on behalf of New Hampshire Gas Corporation; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

**I. PROCEDURAL HISTORY**

On September 30, 2003, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing gas in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate and Fixed Price Option (FPO) rate for the period November 1, 2003 through April 30, 2004. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Mark A. Cole, General Manager for NHGC.

An Order of Notice was issued on October 3, 2003, setting a hearing for October 28, 2003. NHGC informed customers of the impending rate change by publishing a copy of the Order of Notice in the Keene Sentinel on October 8, 2003.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. New Hampshire Gas Corporation**

At the hearing, NHGC witness Mark A. Cole addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) the fixed price option; 3) reasons contributing to the increased rate; 4) gas supply purchasing policies; 5) change in the rate case expense surcharge; and 6) charging the COG and FPO rates on a bills-rendered basis.

#### **1. Calculation of the COG Rate and Customer Impact**

The proposed revised 2003/2004 Winter COG rate of \$0.9141 per therm was calculated by increasing the anticipated cost of gas of \$342,666 by a prior period under-collection and related interest of \$13,097 plus a credit of \$10 related to temporary LP service and dividing the resulting anticipated costs of \$355,753 by projected therm sales of 389,188. This yields a 2003/2004 Winter COG rate of \$0.9141 per therm, representing an increase of \$0.1248 per therm over the 2002/2003 average Winter COG rate of \$0.7893 per therm.

The increase in the Winter COG rate results in an increase in gas costs of \$156 for a typical residential heating customer. There is also a \$36 increase in the delivery rate, as approved in Commission Order No. 24,102 (December 23, 2002) effective November 1, 2003. The cumulative increase for a

typical residential heating customer will be \$192, or a 10.5 percent increase over last winter.

## **2. Fixed Price Program**

In Order No. 23,764 (August 24, 2001), the Commission approved NHGC's FPO program for implementation during the 2001/2002 Winter COG period. Volumes to be offered under the program were set at fifty percent (50%) of weather normalized sales. The proposed 2003/2004 Winter FPO rate was calculated in accordance with Order No. 23,764 and set at \$0.8877 per therm.

The FPO rate is calculated by first determining the actual per therm cost of the FPO and then comparing it to the proposed COG rate. NHGC's tariff page, 18<sup>th</sup> Revised Page 24, Superseding 17<sup>th</sup> Revised Page 24, demonstrates the FPO cost of \$0.8877 per therm was calculated by increasing the pre-purchased gas costs of \$331,929 plus additional costs of \$579 related to the temporary LP service and the prior period under-collection and related interest, which totaled \$12,959, and dividing the resulting costs of \$345,467 by projected therm sales of 389,188. The FPO per therm cost was then compared to the proposed COG rate to determine if the FPO rate was less than 105% of the COG rate, therefore requiring a risk premium. The FPO rate exceeded the proposed COG rate by more than 105% and, therefore, a risk premium was not added to the FPO rate.

NHGC notified customers of the FPO program through a letter dated October 1, 2003. The letter provided specific details on the program and provided an enrollment form. The enrollment period ended October 20, 2003, with 79 percent of the available volumes having been subscribed for the 2003/2004 winter period. Unsubscribed FPO supplies will be used to satisfy COG requirements and serve as a hedge against price fluctuations for the COG customers.

### **3. Factors Contributing to the Increased Rate**

Mr. Cole explained that the projected gas costs for the upcoming winter period are higher than those paid last winter and, due to restrictions on the propane pipeline over which NHGC typically receives its supply, NHGC was recently forced to contract for more expensive supplies at a different terminal.

### **4. Gas Supply Purchasing Policies**

NHGC continues to purchase propane-air under the terms of the Operating and Propane-air Sales Supply Agreement with Keene Gas Corporation (KGC). This arrangement has been in effect since NHGC acquired the utility franchise and distribution properties. KGC manufactures the propane-air product which NHGC purchases for distribution and resale to its customers. Mr. Cole consults with the KGC purchasing agent regarding propane purchasing strategies.

### **5. Rate Case Expense Surcharge**

Mr. Cole testified that the rate case expense surcharge revenues collected to date were slightly below expected recoveries. Mr. Cole noted the therm sales estimate used to originally calculate the surcharge was based on an historical test year, and that actual therm sales are differing from that estimate. Ex. 2 at R-5. Mr. Cole stated that to fully recover the rate cases expenses over the approved two year period would require an increase in the per therm rate from \$0.0214 to \$0.0216.

### **6. Rate Changes on a Bills-Rendered Basis**

At hearing, NHGC requested the Commission waive administrative rule Puc 1203.05(b), which requires rate changes be implemented on a service-rendered basis, noting that the Commission has granted the waiver in previous COG proceedings and for approved changes in the delivery rates.

#### **B. Staff**

Staff stated it had reviewed the filing and recommended approval of the proposed rates. Staff noted that fuel purchasing for the period is consistent with prior periods and that the 2003/2004 winter gas costs would be reconciled and reviewed during NHGC's 2004/2005 Winter period COG proceeding.

Staff further recommended that the Commission approve NHGC's request that the rate changes be made on a bills-rendered

basis. Staff cited the added expense for NHGC to switch to a service-rendered billing basis and possible customer confusion if NHGC were to switch to a service-rendered basis.

### **III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that NHGC's proposed COG rate and FPO rate will result in just and reasonable rates pursuant to RSA 378:7. Accordingly, we approve NHGC's winter filing.

We note NHGC's purchasing policies are consistent with past practice. However, we expect NHGC to continue monitoring the propane markets and propose changes in purchasing strategies and pricing services if market conditions so merit.

N.H. Code of Administrative Rules Puc 1203.05 provides that, in general, rate changes must be implemented on a service-rendered basis. However, subsection (c) of the rule specifically contemplates waivers of this requirement in appropriate circumstances, and requires utilities seeking to implement rate changes on a bills-rendered basis to address such issues as potential customer confusion, implementation costs, the matching of revenue with expenses and the objective of adequate customer notice. NHGC customers are accustomed to rate changes on a bills rendered basis and a change in that policy may result in customer confusion and the current billing system is not designed to accommodate changes on a service rendered

basis, and such a change would necessitate modifying or replacing the existing billing system at some cost to the NHGC. Based upon those considerations, we grant NHGC's request for a waiver of the requirement that rate changes be implemented on a service-rendered basis.

**Based upon the foregoing, it is hereby**

**ORDERED**, NHGC's waiver of Administrative Rule Puc 1203.05 (b) is GRANTED; and it is

**FURTHER ORDERED**, that NHGC's proposed Winter COG rate of \$0.9141 per therm for the period November 1, 2003 through April 30, 2004 is APPROVED effective for bills-rendered on or after November 1, 2003; and it is

**FURTHER ORDERED**, that NHGC may, without further Commission action, adjust the approved Winter COG rate of \$0.9141 per therm upward or downward monthly based on NHGC's calculation of the projected over or under-collection for the period, but that the cumulative adjustments shall not vary more than twenty percent (20%) from the approved unit cost of gas; and it is

**FURTHER ORDERED**, that NHGC shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. NHGC shall include a

revised tariff page 24 - Calculation of Cost of Gas and revised rate schedules if NHGC elects to adjust the COG rate; and it is

**FURTHER ORDERED**, that the over or under-collection shall accrue interest at the Prime Rate as reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first business day of the month preceding the first month of the quarter; and it is

**FURTHER ORDERED**, that NHGC's proposed Winter FPO rate of \$0.8877 per therm for the period November 1, 2003 through April 30, 2004 is APPROVED effective for bills-rendered on or after November 1, 2003; and it is

**FURTHER ORDERED**, that NHGC's proposed Rate Case Expense Surcharge of \$0.0216 per therm for the period November 1, 2003 through October 31, 2004 is APPROVED effective for bills-rendered on or after November 1, 2003; and it is

**FURTHER ORDERED**, that NHGC shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New  
Hampshire this thirty-first day of October, 2003.

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Thomas B. Getz  
Chairman

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Susan S. Geiger  
Commissioner

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Graham J. Morrison  
Commissioner

Attested by:

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Claire D. DiCicco  
Assistant Secretary